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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 333 June, 1988

Business in Virginia May, 1988 Data

After slight declines in April, building permits and new car registrations rose strongly in May compared to May of 1987. Building permits in the seventeen urban areas we track jumped 27.2 percent in May. That brings the cumulative January-May dollar volume to 14.4 percent above the depressed levels for the same period last year, making this year's level almost equal to the early 1986 amounts.

The state total for new car registrations increased 8.0 percent in May, yielding a cumulative 1988 gain of 7.7 percent. As with building permits, that almost offsets the decrease in car demand that occurred in early 1987 and leaves new car sales in Virginia even with the high 1986 volume.

Both planned construction and new car purchases represent demand for durable goods with a long useful life, usually financial with borrowed funds. Therefore the high levels of demand experienced in 1988 can be interpreted as a sign of Virginians' confidence in the state's continued economic health, hence their willingness to make long-term financial commitments.

Both types of demand, though, also are sensitive to interest rates. The decrease in interest rates following the October stock market crash undoubtedly has been a positive force in the spring surge in construction and car demand. A strong economy and rising inflation, along with some tightening of the availability of money by the Federal Reserve, are nudging interest rates back up. Those higher interest rates will dampen future growth in demand for cars and structures, making it unlikely that the January-May increases can be sustained for the full year.

Our sample of retail stores reported a 4.3 percent statewide decrease in sales per store for May compared to the same month last year. That follows an April decline of 1.4 percent, indicating retail buying by Virginians remains below normal, considering the high income growth realized in Virginia in 1987 and continuing in 1988 (see second article). The total taxable sales data now available for April and reported in the last column of Table II give a more optimistic picture, showing a 13.8 percent jump in April taxable sales. That month's data, however, may be distorted by reporting patterns, so the most appropriate comparison of our two retail sales measures is given by cumulative data. Since taxable sales data are only available to us with a month's lag, the January-April taxable sales changes in the last column of this issue's Table III must be compared to the January-April changes for our retail sales sample as reported in last month's issue in Table III.

Such a comparison reveals our sample experienced a 0.6 percent decline in sales per store for the January-April period, while total taxable sales statewide rose 5.4 percent through April (given our January adjustment described in previous issues). The taxable sales reports include all facilities, new and old, while our sample contains the same set of establishments in both years. The difference of six percentage points between these two measures primarily reflects the rapid increases still occurring in retail facilities - malls, centers, and stores. Total retail employment in Virginia in April was 6.2 percent higher than in April 1987,

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change May, 1988 from May, 1987

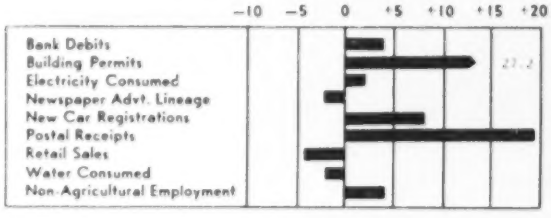
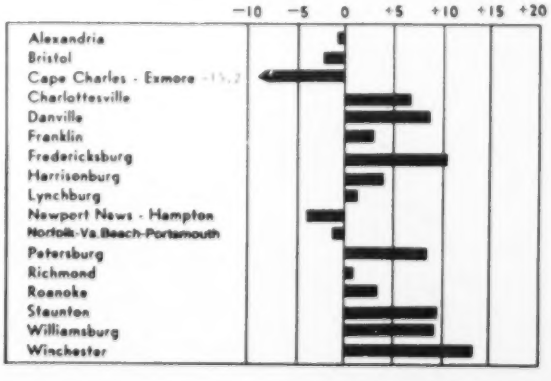


Chart II

City Indices

Percentage Change May, 1988 from May, 1987



SELECTED BUSINESS AND ECONOMIC INDICATORS
FOR 17 CITIES

TABLE I May, 1988

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	April NON AGRI-CULTURAL EMPLOYMENT /	WATER CONSUMED	RETAIL SALES†	POSTAL RECEIPTS
The State		404.6	238.3	131.5	117.7	199.2	144.8	92.6	148.7	413.9
Alexandria	157.0	500.2	1221.5	144.5	N.A.	168.4	198.6	90.9	165.6	N.A.
Bristol	109.8	N.A.	70.9	97.4	73.6	104.8	120.8	105.2	125.4	N.A.
Cape Charles - Exmore	174.3	N.A.	434.6	110.1	N.A.	662.6	N.A.	N.A.	98.5	193.6
Charlottesville	198.0	188.7	1691.9	122.7	N.A.	161.2	116.6	126.9	245.1	321.2
Danville	140.1	N.A.	146.7	113.1	161.2	121.0	99.8	87.3	N.A.	278.2
Franklin	160.6	N.A.	213.0	111.7	147.6	150.8	N.A.	94.0	120.1	260.5
Fredericksburg	389.8	208.8	228.1	N.A.	179.5	241.8	N.A.	78.9	283.7	1377.0
Harrisonburg	192.2	267.5	690.5	N.A.	176.7	115.1	N.A.	N.A.	162.9	372.6
Lynchburg	265.3	359.1	192.0	116.5	N.A.	117.9	100.6	111.2	192.2	1099.4
Newport News - Hampton	128.1	N.A.	349.7	107.6	99.6	110.1	143.6	109.8	151.3	N.A.
Norfolk - Portsmouth	185.2	529.5	221.1	139.3		145.9		88.2	288.2	N.A.
Petersburg	151.3	98.7	367.8	N.A.	35.9	104.7	133.7	107.1	192.5	231.3
Richmond	173.4	430.5	294.2	145.8	131.3	155.8		111.4	170.3	371.7
Roanoke	176.7	372.8	62.0	102.2	174.3	100.4	120.8	128.2	194.3	381.5
Staunton	149.9	146.2	53.7	N.A.	99.9	101.7	N.A.	N.A.	156.1	229.5
Williamsburg	188.5	161.3	26.0	161.1	N.A.	161.9	N.A.	105.0	153.4	431.8
Winchester	179.6	480.9	490.7	127.0	241.9	169.9	N.A.	N.A.	N.A.	N.A.

TABLE II May, 1988

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	April NON AGRI-CULTURAL EMPLOYMENT /	WATER CONSUMED	RETAIL SALES †	April RETAIL SALES ‡
The State		3.9	27.2	2.3	-2.5	8.0	4.1	-1.5	-4.3	14.8
Alexandria	-0.2	19.7	283.0	4.7	N.A.	11.7	5.9	-11.0	-8.5	13.0
Bristol	-2.4	N.A.	-45.6	-2.1	-11.4	-15.0	6.4	9.1	-7.1	12.8
Cape Charles - Exmore	-15.2	N.A.	72.7	0.3	N.A.	20.3	N.A.	-47.6	-29.1	8.0
Charlottesville	7.3	-36.1	443.6	4.1	N.A.	7.5	5.0	2.9	2.8	29.9
Danville	8.4	N.A.	107.0	1.4	1.4	22.3	1.8	0.0	N.A.	23.2
Franklin	2.7	N.A.	-36.4	6.2	20.5	24.3	N.A.	-12.9	-1.9	-10.5
Fredericksburg	10.3	3.3	-48.8	N.A.	-7.9	27.3	N.A.	16.9	4.9	21.4
Harrisonburg	3.7	11.3	41.9	N.A.	20.0	-1.4	N.A.	N.A.	-7.2	25.2
Lynchburg	1.1	4.4	2.2	3.7	N.A.	-8.9	1.0	-0.2	-0.8	15.6
Newport News - Hampton	-4.4	N.A.	17.2	-5.8	-3.5	1.8	3.5	-16.0	-8.3	5.3
Norfolk - Va. Beach - Portsmouth	-1.0	31.9	3.4	-1.5		1.9		-0.5	-6.8	11.1
Petersburg	8.8	-74.0	3.1	N.A.	-4.2	47.1	3.8	4.7	0.7	16.6
Richmond	0.8	-3.9	-25.6	3.0	-7.1	3.0		2.3	-5.1	17.3
Roanoke	3.3	14.2	10.4	11.0	-4.8	-5.7	-0.8	3.6	1.3	22.8
Staunton	9.9	-1.0	23.4	N.A.	3.4	0.0	N.A.	N.A.	12.8	15.8
Williamsburg	9.7	-10.4	155.8	4.7	N.A.	20.9	N.A.	16.0	3.0	17.3
Winchester	13.3	7.0	222.6	0.4	3.8	22.7	N.A.	N.A.	N.A.	26.9

TABLE III

Percentage Change January - May from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	Jan.-April NON AGRI-CULTURAL EMPLOYMENT /	WATER CONSUMED	RETAIL SALES †	Jan.-April RETAIL SALES ‡
The State		-5.2	14.4	6.0	-0.8	7.7	4.4	1.3	-1.4	5.4
Alexandria	-0.3	11.1	118.1	8.1	N.A.	7.4	7.7	-1.5	-8.1	0.2
Bristol	-0.4	N.A.	4.5	4.2	-12.1	17.5	5.8	3.4	-4.5	-1.6
Cape Charles - Exmore	-1.1	N.A.	84.8	5.7	N.A.	30.5	N.A.	N.A.	-13.1	-3.2
Charlottesville	7.4	-37.5	38.1	3.9	N.A.	12.7	6.3	3.6	7.8	9.2
Danville	6.5	N.A.	77.9	1.4	2.5	27.2	1.8	-10.8	N.A.	18.6
Franklin	-2.7	N.A.	71.8	1.9	6.7	-6.5	N.A.	-8.4	-2.7	-7.2
Fredericksburg	5.5	8.3	-75.3	N.A.	0.4	8.6	N.A.	21.7	2.3	1.2
Harrisonburg	6.9	5.4	-21.0	N.A.	19.3	4.1	N.A.	N.A.	1.7	13.6
Lynchburg	2.0	1.1	-28.6	3.5	N.A.	9.1	0.9	-0.7	1.0	0.4
Newport News - Hampton	-2.0	N.A.	20.4	2.6	-3.4	-7.5	3.5	-7.2	-1.2	-2.7
Norfolk - Va. Beach - Portsmouth	1.2	-11.3	-0.6	6.9		-3.3		2.8	1.4	-0.2
Petersburg	5.3	-20.8	3.8	N.A.	-5.8	28.9	4.0	13.3	1.0	0.8
Richmond	2.1	-4.0	-29.3	5.3	-1.7	7.9		6.6	-2.9	3.2
Roanoke	2.6	-1.7	44.9	5.7	-1.3	1.2	0.3	6.0	-0.4	12.8
Staunton	11.4	1.8	-6.8	N.A.	11.6	18.7	N.A.	N.A.	13.1	-0.8
Williamsburg	3.6	-6.7	15.5	5.3	N.A.	9.8	N.A.	3.8	1.1	0.7
Winchester	11.9	9.2	18.2	2.1	N.A.	21.8	N.A.	N.A.	N.A.	11.9

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

/Virginia Employment Commission data which lags behind current reports.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

?Only total MSA data are available for these cities.

N.A. — Not Available
O.O. — No Change

and that job growth is a good indication of the rate of increase in retail facilities.

Therefore while total retail trade has grown by 5.4 percent, that demand increase has been at least matched, if not exceeded, in most areas by the addition of new retail facilities. The average store in that case ends up with little or no gain in sales, in spite of very good overall economic growth in Virginia. RLP

A New View of 1988 and 1989

The June revisions in economists' national forecasts for 1988 can be summarized in one word: up. The June 10 issue of Blue Chip Economic Indicators showed 46 of their 51 regularly cited forecasters had increased since May their forecasts for national growth, and all but one now predict higher real growth than they did last November 10. The consensus forecast for those 51 now is real GNP in 1988 will be 3.4 percent higher than in 1987. On June 23, Beryl Sprinkel, the chairman of President Reagan's Council of Economic Advisors, released the administration's new forecast of 3.5 percent real growth, year over year, up from their 2.9 percent prediction in February. Thus the White House and the Private sector economists now share similar expectations for 1988, with a widely accepted view that the nation's real output will grow at a somewhat higher rate in 1988 than the 2.9 percent realized in 1987.

We concur with the general outlook: our current prediction is 3.5 percent real GNP growth in 1988. That is a very realistic forecast, given the broad strength shown by the economy so far in 1988. As expected, export growth has been strong and consumer spending has grown at about the same pace as last year. The unexpected boost has come primarily from a surge in business firms' equipment purchases, likely to be up 15 percent in real terms this year, as businesses have rushed to increase production capacity and improve productivity.

Higher real output growth is pressing capacity in many industries and generally creating a very tight labor market. Those conditions, plus higher import prices due to the lower dollar and higher food prices due to the drought, are generating higher inflation. In 1987, the Consumer Price Index rose 3.7 percent. We predict the 1988 increase will be 4.5 percent; and in 1989, the inflation will be 5.1 percent.

The nation's 1988 uptick in real growth will not be sustained in 1989. Exports and business equipment purchases both will grow at lower rates, and concurrently consumers' real demand will increase at a slightly slower pace. Rising inflation and a continued tightening in monetary policy will push interest rates higher, reinforcing the deceleration in demand growth. We predict real GNP will grow by only 2.2 percent in 1989, sending the unemployment rate higher.

That national outlook is the background for our revised Virginia forecasts for 1988 and 1989, shown in Table IV on the back page.

Last November we predicted Virginia's growth would slow down quite noticeably in 1988. That deceleration appears to have been postponed until 1989. The 1988 performance now is expected to almost match the 1987 growth rates in key elements such as real (inflation-adjusted) personal income and payroll employment.

Virginia's 1988 growth is above expectations for three reasons. First, as described above, gains nationally are higher than predicted. Virginia will claim its share of that higher demand. Secondly, Virginia's 1987 increases, especially in employment and also in income, turned out to be larger than indicated by preliminary data. The upward revisions in both the levels and rates of growth for 1987 showed Virginia entered 1988 in a much stronger position than was apparent last November.

The third reason is the construction boom in Virginia has continued longer and stronger than we predicted. Construction employment rose 7.4 percent in 1987 instead of leveling off after mid-year. The strength shown in early 1988 points to another increase, probably rising to 190,000 workers for the year, a 4.4 percent gain. The high growth in nonagricultural employment has reinforced the current very high rates of population growth and household formation in the state, sustaining a high demand for new housing and consumer-oriented business structures. The high overall private sector growth in Virginia also has created demand for government construction, from highways and schools to public utilities and offices. Thus several interacting forces have worked to maintain Virginia's growth in construction and construction-related businesses in 1987 and on into 1988.

That very growth in construction is creating a problem for the future. Construction activity and employment are reaching an all-time cyclical high in Virginia, a level that cannot be sustained indefinitely even with the high rate of household formation in the state. There will be a downward adjustment in the near future. Probably not in 1988, but almost certainly in 1989. Thus construction activity will be a key factor in Virginia's very strong 1988 growth and also in the probable decelerating growth in 1989.

We predict the total personal income received by Virginia residents will be $96.4 billion in 1988, up 8.3 percent from 1987. Sounds impressive, and it is. But, the Consumer Price Index probably will rise by 4.5 percent. Adjusting for that rate of inflation leaves a gain in real income of 3.6 percent. That is very good real growth, above the national rate, but that is total state growth. The population and number of households dividing that income are increasing, too. On a per capita basis, we project a 1.8 percent rise in Virginias' real income in 1988; and the 1988 increase is only 1.3 percent on a per household basis.

The 1988 job outlook in Virginia, like the overall economic picture, is considerably stronger than anticipated last fall. Through April, the cumulative growth in payroll jobs compared to 1987 was 4.4 percent, and for the year we now forecast a 4.2 percent gain, equal to 113,000 additional employees. Aside from construction, there is substantial continuing strength in the private service-producing industries: trade, services, FIRE (finance, insurance, and real estate), transportation and public utilities. Job growth in such industries is decelerating - from 6.7 percent last year to a projected 5.5 percent this year. Even so, these industries will add 84,000 net new jobs in 1988. Virginia's problem increasingly is finding workers to fill the jobs available, rather than creating job opportunities for those seeking employment.

The year 1989 probably will see slower job growth in Virginia, 2.5 percent, stemming from a decline in construction and further deceleration of the growth of service-producing industries. Resident income growth will decline to a 7.2 percent rate, accompanied by a 5.1 percent inflation. Therefore Virginia real income will rise by only 2.0 percent. Population and household growth will moderate slightly, but the net result will be only a 0.5 percent increase in real income per capita and no real gain per household.

Virginia will avoid braking noticeably in 1988. But the national and state forces adding extra momentum this year will begin to dissipate by next year, pulling down the state's real growth rates. RLP

TABLE IV

VIRGINIA INCOME AND EMPLOYMENT
1987 PERFORMANCE AND PROJECTIONS
FOR 1988 AND 1989

	PERCENT CHANGE 1986-1987	1987 LEVEL	PERCENT CHANGE 1987-1988	1988 LEVEL	PERCENT CHANGE 1988-1989	1989 LEVEL
RESIDENT PERSONAL INCOME($ MILLION)	7.6%	$96,361	8.3%	$104,360	7.2%	$111,900
POPULATION	1.9%	5,904	1.8%	6,010	1.5%	6,100
HOUSEHOLDS	2.4%	2,175	2.3%	2,225	2.0%	2,270
INCOME PER CAPITA	5.6%	$16,321	6.4%	$17,364	5.6%	$18,344
INCOME PER HOUSEHOLD	5.1%	$44,304	5.9%	$46,903	5.1%	$49,295
REAL PERSONAL INCOME (MILLIONS OF 1982$, CPI-U DEFLATOR)	3.8%	$84,825	3.6%	$87,910	2.0%	$89,688
REAL INCOME PER CAPITA	1.9%	$14,367	1.8%	$14,627	0.5%	$14,703
REAL INCOME PER HOUSEHOLD	1.4%	$39,000	1.3%	$39,510	0.0%	$39,510
EMPLOYMENT(000s)	4.7%	2,678	4.2%	2,791	2.5%	2,860
MANUFACTURING(000s)	1.0%	429	1.4%	435	1.1%	440
MINING(000s)	-5.5%	16	-3.8%	15	0.0%	15
CONSTRUCTION(000s)	7.4%	182	4.4%	190	-6.8%	177
TRADE, SERVICES, TRANS. AND PUB. UTILITIES, AND FIRE(000s)	6.7%	1,523	5.5%	1,607	4.2%	1,675
GOVERNMENT(000s)	1.6%	528	3.0%	544	1.7%	553

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